

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

REVIEW OF THE FISCAL AND ADMINISTRATIVE
MANAGEMENT OF THE CALIFORNIA STATE
UNIVERSITY, LONG BEACH FOUNDATION, AND THE
CALIFORNIA STATE UNIVERSITY, LONG BEACH

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

F-633

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MANAGEMENT OF THE CALIFORNIA STATE
UNIVERSITY, LONG BEACH FOUNDATION, AND THE
CALIFORNIA STATE UNIVERSITY, LONG BEACH

DECEMBER 1986



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Thomas W. Hayes
Auditor General

December 16, 1986

F-633

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning deficiencies in the fiscal and administrative management of the California State University, Long Beach Foundation, and the California State University, Long Beach. The report indicates that the foundation made disbursements of discretionary funds that appeared unrelated to the educational mission of the university and that were improperly documented and authorized. The report also indicates that the university does not comply with all budgetary and procedural requirements. In fiscal year 1985-86, the university overcommitted its authorized budget and had to obtain a \$900,000 loan from the California State University Office of the Chancellor to pay its obligations.

Respectfully submitted,

Thomas W. Hayes
THOMAS W. HAYES
Auditor General

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SUMMARY

RESULTS IN BRIEF

In our review of the fiscal and administrative management of the California State University, Long Beach Foundation (foundation), and the California State University, Long Beach (university), we found some deficiencies in the management of both the foundation and the university. For example, in fiscal years 1984-85 and 1985-86, the foundation made disbursements of discretionary funds that were excessive, improperly authorized, or inadequately documented. In addition, in fiscal year 1985-86, the university overcommitted its General Fund budget by \$1.6 million, and, therefore, transferred to fiscal year 1986-87 obligations totaling \$688,000 and had to obtain a \$900,000 loan from the California State University (CSU) Office of the Chancellor. Furthermore, because the university did not adequately document its use of funds budgeted for instructional faculty positions, it had no assurance that these funds were used only for instructional purposes.

BACKGROUND

The California State University, Long Beach, is the second largest university in the California State University system, with an average term enrollment of 32,000 students. In fiscal year 1985-86, the university had a General Fund budget of approximately \$97 million.

The California State University, Long Beach Foundation, is one of the auxiliary organizations on the university's campus. The foundation operates as an integral part of the university by conducting scientific and literary research programs and by administering donations, gifts, and bequests for university-related purposes.

PRINCIPAL FINDINGS

The California State University, Long Beach Foundation, Does Not Sufficiently Control Some of Its Operations

The policy of the CSU Office of the Chancellor states that expenditures must be made in conformity with state control procedures and in a manner consistent with the educational mission of the university. However, the foundation does not provide sufficient control over discretionary fund disbursements. As a result, the foundation has made excessive expenditures for items such as luncheons and dinners for spouses of faculty and administrators. In addition, disbursements of discretionary funds were not well documented and were improperly authorized. Further, the foundation did not adequately monitor research hours worked by faculty members.

The University Does Not Comply With All Budgetary and Procedural Requirements

In fiscal year 1985-86, the university overcommitted its authorized budget. As a result, the university transferred to fiscal year 1986-87 obligations totaling \$688,000 and had to request a \$900,000 loan from the CSU Office of the Chancellor to pay its obligations. In addition, the university did not adequately document its use of funds budgeted for instructional faculty positions. Furthermore, in one instance, the university bypassed established procedures when awarding a summer stipend to a new employee, and it has not established procedures to adequately control grade change forms.

RECOMMENDATIONS

The foundation should establish operating procedures to ensure that expenditures of discretionary funds are appropriate, adequately documented, properly authorized, and that the research hours of faculty members are effectively monitored.

The university should plan to spend only what is budgeted by the CSU Office of the Chancellor and fully document the use of funds budgeted for instructional faculty positions. In addition, the Legislature should adopt budget language that specifically states how funds budgeted for instructional faculty positions may be used.

The university should use the same criteria to evaluate all proposals for summer stipends and should develop guidelines for the proper storage and reconciliation of grade change forms.

AGENCY COMMENTS

The foundation has taken corrective action to improve controls over the disbursement of discretionary funds and to improve the monitoring of research hours worked by faculty members. In addition, the university has taken corrective action to improve its documentation of summer stipend awards and to improve its control of grade change forms. In its response, the university also provides additional information about the discretionary fund expenditures that we identified in our report.

INTRODUCTION

The California State University, Long Beach (university), is one of 19 campuses in the California State University (CSU) system. The board of trustees, whose members are appointed by the governor, oversee the CSU system. The board of trustees appoints the chancellor, who is the chief executive officer of the system, and the presidents, who are the chief executive officers on the campuses. The university is the second largest university in the CSU system, with an average term enrollment for the 1985-86 college year of 32,000 students. In fiscal year 1985-86, the university had a General Fund budget of approximately \$97 million.

Within the CSU system are 60 auxiliary organizations. Auxiliary organizations, which include campus-based foundations, are authorized by the Legislature to perform functions that contribute to the educational mission of the university. Auxiliary organizations operate as an integral part of the CSU system by conducting various campus support activities, such as directing student body functions, operating book stores and food services, and administering research and training agreements.

The California State University, Long Beach Foundation (foundation), is one of the six auxiliary organizations on the university campus. The California Education Code requires that auxiliary organizations operate in accordance with the regulations of

the board of trustees of the CSU system. The foundation is a separate entity organized as a nonprofit corporation under the California Nonprofit Corporation Law. The primary purpose of the foundation is to conduct scientific and literary research programs as a public service. In addition, the foundation receives and disburses funds on behalf of people and organizations depositing funds in foundation accounts.

Previous Auditor General Report
on Foundations of California
State Universities and Colleges

In January 1982, the Office of the Auditor General reported on the operations of nine foundations of the CSU system, including the foundation at the Long Beach campus. The report concluded that, although the CSU campuses have incurred most of the costs related to administering contracts, the foundations have retained large portions of the indirect cost reimbursements. Additionally, the report concluded that the foundations used discretionary funds to finance items that are unrelated to the educational objectives of the CSU system and did not properly authorize or document expenditures of discretionary funds. According to the report, the inequitable reimbursement of indirect costs is consistent with a CSU policy that foundations remain solvent; however, upholding the policy may contradict another CSU policy defining foundations as self-supporting. The questionable expenditures of discretionary funds occurred because the CSU system had not established specific guidelines on the proper use of discretionary funds and did not have sufficient procedures for

authorizing and documenting discretionary fund expenditures. (This report is entitled "A Review of the Operations of the California State University and Colleges' Foundations," Report P-051.)

SCOPE AND METHODOLOGY

The purpose of this audit was to review the fiscal and administrative management of the foundation and the university. We reviewed applicable laws, regulations, and policies governing the foundation and the university. We reviewed the foundation's agency account expenditures and its monitoring of research hours worked by faculty members. We also reviewed specific policies and procedures related to the university's budget, its summer stipend program, and its grade change process.

In conducting this audit, we interviewed personnel at the university, the foundation, the CSU Office of the Chancellor, the Office of the Legislative Analyst, and the Department of Finance. Additionally, we reviewed records at the foundation and at the university. Furthermore, we performed tests to determine the university's compliance with identified policies and procedures.

AUDIT RESULTS

I

THE CALIFORNIA STATE UNIVERSITY, LONG BEACH FOUNDATION, DOES NOT SUFFICIENTLY CONTROL SOME OF ITS OPERATIONS

The California State University, Long Beach Foundation (foundation), does not adequately control expenditures of discretionary funds. For example, the foundation made disbursements of discretionary funds that were excessive, were not well documented, and were improperly authorized. In addition, the foundation did not adequately monitor research hours worked by faculty members.

The Foundation Does Not Adequately Control Discretionary Fund Expenditures

Section 89904.6 of the California Education Code requires the board of trustees of the California State University (CSU) system to develop and implement guidelines to ensure that foundations spend discretionary funds in a manner that is consistent with the educational mission of the university. The policy of the CSU Office of the Chancellor on foundation expenditures states that expenditures must fall within the educational mission of the university and must be made in conformity with state control procedures such as limits on travel expense reimbursement and requirements for competitive bidding. Finally, foundation and university policy specifically limits the amount of reimbursement from discretionary funds for community relations or campus hospitality meals.

The foundation administers discretionary funds through its agency fund accounts, which hold amounts on deposit for faculty, administrators, and organizations to use for various purposes, including community relations, research stimulation, and training programs. The foundation holds or disburses funds from these agency fund accounts on behalf of the person or organization depositing the funds. During fiscal years 1984-85 and 1985-86, the foundation maintained approximately 425 agency fund accounts. The foundation expended a total of about \$3.4 million from these accounts during fiscal year 1984-85.

We reviewed discretionary fund disbursements from 9 of the 425 agency fund accounts administered by the foundation during fiscal years 1984-85 and 1985-86. We identified disbursements of approximately \$9,000 from 4 of these 9 accounts that were excessive, were not well documented, and were improperly authorized.

The foundation made disbursements from four of the nine accounts although there was no documentation showing how the expense related to the educational objectives of the university. In addition, some of these disbursements were excessive. For example, the foundation paid for disc jockey services from a research support account although there was no documentation showing how this expenditure related to the educational objectives of the university or to research. Additionally, reimbursements for "community relations" meals from two of these accounts exceeded foundation and university

limits. In one instance, the foundation paid \$401.50 (\$57.35 per person) for a dinner for seven. The allowable limit for dinners is \$25 per person. Consequently, the foundation paid \$226.50 more than allowed. Further, in November 1985, a university administrator paid to a civic organization \$1,000 in membership dues for 1987 and 1988. According to the foundation's director of accounting, these disbursements were made because the foundation's accounting staff normally do not question an expenditure from agency fund accounts if the request is appropriately signed.

Further, in three of the nine accounts we reviewed, the foundation made disbursements for goods and services that would be denied at a state agency because the disbursements did not conform with state control procedures. For example, because the university was unable to reimburse travel expenses through state funds for an administrator's spouse, the university requested reimbursement of \$589 from discretionary funds maintained at the foundation. Another faculty member received reimbursement from discretionary funds for travel expenses that exceeded allowable limits established by the university. We also identified disbursements of discretionary funds for computer equipment costing \$2,704 that was purchased without competitive bids. The foundation's purchasing guidelines require competitive bids for purchases over \$500 and require three written quotations for purchases over \$2,000.

In addition to the questionable expenditures we identified, the foundation made disbursements that were inadequately documented and improperly authorized. The California Administrative Code, Title 5, Section 42401, states that one objective of auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of auxiliary activities with the campus in accordance with sound business practices. Good internal accounting control requires that adequate documentation--including original invoices, dates, amounts, and a statement of the purpose of the transaction--support all disbursements. To provide further assurance that transactions are appropriate, an individual should not approve his own disbursement.

However, the foundation made disbursements from two of the nine accounts reviewed that were inadequately documented and disbursements from one account that were improperly authorized. The foundation made disbursements without receipts, original invoices, or explanation of the purpose for the disbursements. The foundation also paid \$483.95 to an individual who had authorized the disbursement of funds. This individual used personal funds to make purchases and then requested reimbursement from discretionary funds maintained by the foundation.

The Foundation Has Not Adequately
Monitored Research Hours

The foundation did not coordinate with the university to adequately monitor the number of research hours worked by faculty members. During the academic year 1985-86, the hours that at least one faculty member worked on research projects exceeded allowable limits by 135 hours.

The memorandum of understanding between the board of trustees of the California State University and the California Faculty Association, the faculty bargaining representative, states that the number of hours worked by a faculty member on research, which is considered "additional employment," is not to exceed 25 percent of the hours worked in his or her primary or normal full-time employment. Additional employment is any employment funded by the CSU or its auxiliary organizations that is in addition to normal full-time employment.

We tested the payroll and assignment records of five faculty members who worked on multiple research grants during fiscal years 1984-85 and 1985-86. We selected those faculty members who were project directors on multiple research grants during that time; thus, we tested the faculty members most likely to have exceeded the allowable limits for work on research. From the university's faculty assignment records, we calculated the maximum number of research hours allowable for each faculty member. From the foundation's payroll

records, we obtained the number of research hours worked by each faculty member and compared those hours with the number of hours allowable.

Although the foundation monitors the number of research hours worked by faculty members, the foundation did not use the most current faculty information to calculate allowable research hours. For example, one of the five faculty members in our sample worked 135 hours in excess of the allowable limits for research projects during the 1985-86 academic year because the foundation used faculty assignment information from the previous semester to calculate the faculty member's allowable research hours for the current semester. For the fall 1985 semester, the faculty member had only a three-quarter faculty assignment with the university and was, therefore, allowed more research hours. The faculty member switched to a full-time university assignment for the spring 1986 semester, but the foundation continued to use the three-quarter assignment status for monitoring research hours. Consequently, the foundation's monitoring process did not disclose that the faculty member was working more than the allowable number of hours on research projects.

CONCLUSION

The California State University, Long Beach Foundation, does not adequately control discretionary fund expenditures. As a result, the foundation has made inappropriate and excessive

expenditures. The foundation made discretionary fund disbursements that were excessive, were not well documented, and were improperly authorized. Additionally, the foundation has not adequately monitored research hours worked by faculty members. At least one faculty member worked more than the allowed number of hours on research projects.

RECOMMENDATIONS

To improve its control over foundation operations, the foundation and the university should develop an effective system to ensure that discretionary funds are used for purposes that are consistent with the educational objectives of the university and state control procedures and that these disbursements are adequately documented and properly authorized. Additionally, the foundation should coordinate with the university to implement an effective system for monitoring the number of research hours worked by faculty.

THE CALIFORNIA STATE UNIVERSITY,
LONG BEACH, DOES NOT COMPLY WITH ALL
BUDGETARY AND PROCEDURAL REQUIREMENTS

In fiscal year 1985-86, the California State University, Long Beach (university), overcommitted its authorized budget by \$1.6 million because it included in its budget projected revenue and salary savings that failed to materialize. As a result, the university transferred to fiscal year 1986-87 obligations totaling \$688,000 and had to request a \$900,000 loan from the California State University (CSU) Office of the Chancellor to pay its obligations. In addition, the university did not adequately document its use of funds budgeted for instructional faculty positions and may have used up to \$454,000 budgeted for these positions for noninstructional purposes. Furthermore, the university bypassed established procedures when awarding a summer stipend to a new employee, and the university has not established procedures to adequately control grade change forms.

The University Does Not Comply
With All Budget Requirements

Executive Order No. 422, effective July 1, 1983, issued by the CSU Office of the Chancellor, states that campuses should not make commitments exceeding their net allocation of funds, which includes estimated salary savings and reimbursements. In addition, Executive Order No. 422 requires the campuses to submit a Request for Allocation when scheduling unbudgeted reimbursements or revenue.

The university estimated that it would collect reimbursements and realize salary savings of approximately \$2.6 million more in fiscal year 1985-86 than was provided for in its budget authorized by the CSU Office of the Chancellor. According to the budget officer, in October 1985, the budget office increased the university's authorized budget by \$2.6 million and made the \$2.6 million available to various divisions within the university. However, the university did not inform the CSU Office of the Chancellor of the increase. As of June 30, 1986, the university had collected only \$540,000 in additional reimbursements and had realized only \$450,000 in additional salary savings, even though the university had committed the entire \$2.6 million that had been allocated in October.

Because the university's commitments exceeded the amount it had available to spend, the university transferred to fiscal year 1986-87 obligations totaling \$688,000. In addition, the university had to obtain a \$900,000 loan from the CSU Office of the Chancellor. By taking these actions, the university was able to avoid a deficit in the current fiscal year. However, since the university will repay the loan over a three-year period, the university has actually shifted the burden to future fiscal years.

In addition to overspending the authorized budget and failing to notify the CSU Office of the Chancellor when it increased its budget, the university did not adequately document the use of funds budgeted for instructional faculty positions. In its budget for the

Instruction Program, the university did not distinguish the salaries and wages allocated for instructional faculty positions. As a result, the university could not identify funds that should be used only for instructional purposes, and, thus, the university could not ensure that funds budgeted for instructional faculty positions were used only for authorized purposes.

The Budget Act states that funds appropriated in the General Fund for the support of the CSU may be reallocated provided that no instructional faculty positions authorized are used for administration, administrative assistance, department chairmanships, or noninstructional research. Executive Order No. 422, issued by the CSU Office of the Chancellor, delegates the authority to approve transfers within and between budgeted program categories of instruction, academic support, student services, and institutional support, to each campus president with respect to his or her particular campus, including the authority to further delegate to designated officers, subject to certain limitations. The executive order states further that no transfers must be made in accordance with all applicable statutes, including the Budget Act.

The Government Code, Section 13401, states that each state agency must maintain effective systems of internal accounting and administrative controls. Further, the Government Code, Section 13403, states that these controls provide reasonable assurance that the state agencies are checking the accuracy and reliability of accounting data

and are encouraging adherence to prescribed managerial policies. A good system of internal control provides complete documentation of all transactions.

The CSU Office of the Chancellor determines the portion of the CSU budget that will be allocated to each campus. The CSU Office of the Chancellor then allocates the funds to various programs and to various uses within the programs, including personal services, operating expenses, and equipment. In its allocations, the CSU Office of the Chancellor does not distinguish between the instructional faculty positions and other positions in the Instruction Program, such as secretaries, department chairs, and equipment technicians. However, the CSU Office of the Chancellor provides the campus with a report, the Budget Supplement of Authorized Salaries and Wages (Schedule 7A), that shows budgeted positions and the amount budgeted for the positions.

The university allocates its budget among its eight divisions. Instead of using Schedule 7A to determine the amount budgeted for instructional faculty positions and the amount budgeted for other positions in the Instruction Program, the university uses the "faculty utilization report" to monitor instructional faculty positions. This report shows the number of budgeted positions and the number of positions actually paid. If the university pays fewer positions than budgeted, it may use the funds associated with the underused positions for other activities related to instruction. This system for monitoring the use of instructional faculty positions provides an

estimate rather than an accurate accounting of the uses of the funds budgeted for instructional faculty positions.

In fiscal years 1984-85 and 1985-86, the university may have used up to \$454,000 budgeted for instructional faculty positions for noninstructional purposes. In fiscal year 1984-85, the university did not use 18.57 of the 1187.30 budgeted instructional faculty positions; these 18.57 positions represent approximately \$464,000. Approximately \$390,000 of this amount was appropriately designated to fund other purchases related to instruction, such as computer equipment. However, because the university had overspent some expenditure categories in the Instruction Program budget, purchases totaling \$256,000 were cancelled, and the funds were used to offset various deficits within the Instruction Program. The university did not, however, document how it reallocated the \$256,000; consequently, we were unable to determine whether it was used for instructional purposes. In addition, we were unable to determine the final disposition of the remaining \$74,000 (\$464,000 - \$390,000).

In fiscal year 1985-86, the university did not utilize 16.34 of the 1191.50 budgeted instructional faculty positions; these 16.34 positions represent approximately \$409,000. Approximately \$285,000 of this amount was appropriately used to fund other activities related to instruction; however, we were unable to determine the final disposition of the remaining \$124,000.

According to the deputy business manager-budget, some of the funds may have been used to meet required salary savings or to pay for unanticipated retirement expenses. The deputy business manager-budget also stated that Schedule 7A includes "budgeted" amounts. A position may actually cost the university more or less than the amount in the report; this difference may account for some of the discrepancies.

The University Followed Its Standard Process for Awarding Most Summer Stipends

The university provides summer stipends, or grants, of \$2,500 to faculty members for research and creative activities. To be considered for a summer stipend, eligible faculty members submit a standard application to department chairs, school deans, and members of the university's Scholarly and Creative Activity Committee. The Scholarly and Creative Activity Committee members rate and rank the applications and send recommendations for awards to the vice president for academic affairs. The vice president, who may or may not follow the recommendations of the Scholarly and Creative Activity Committee, makes the final decision for awarding stipends.

We reviewed and tested the summer stipend application and award process for the summers of 1985 and 1986. For each of these summers, the vice president concurred with the Scholarly and Creative Activity Committee's recommendations, awarding stipends to all applicants recommended by the committee. However, during the summer of 1986, the vice president also awarded a stipend to a faculty member who

had not submitted an application. The vice president did not document his reasons for awarding the stipend. According to the director of university research, the former vice president awarded the person a stipend as an incentive to accept a faculty position at the university.

The university's process for evaluating applications and awarding summer stipends is an equitable one. However, in 1986 the former vice president exercised his discretionary authority and bypassed the university's application process when awarding a summer stipend to a new employee. Because the former vice president did not document his reasons for awarding the stipend, we were unable to determine whether the former vice president used the same criteria to evaluate the recipient's project as were used to evaluate other summer stipend projects. An adverse relationship between the faculty and the administration may result if the administration does not use the same evaluation criteria to award summer stipends to applicants.

The University Does Not Provide
Proper Control Over Grade Change Forms

According to Executive Order No. 320, issued by the CSU Office of the Chancellor, the president of the university is responsible for establishing and implementing procedures that provide sufficient control over grade changes. While the university has policies regarding the processing of grade changes, it has not established sufficient procedures for safeguarding grade change forms and for ensuring that grade changes are properly authorized.

The grade change process requires that the instructor, the department chair, and the school dean sign the grade change form. The student initiates the grade change process by asking the instructor to change a grade. If approved, the instructor obtains all required signatures and returns the grade change form to the Admissions and Records Office. After processing the grade change, the Admissions and Records Office sends one copy of the grade change form to the department for its records.

One element of good administrative control is the physical safeguarding of official forms such as grade change forms. However, under current procedures, the Admissions and Records Office and three of the five departments we contacted keep the grade change forms in unlocked cabinets and drawers that are accessible to university employees, including student assistants. For example, the political science department keeps its supply of grade change forms in an unlocked drawer behind the counter in the office where graduate assistants work. In addition, four of the five departments we contacted do not maintain control logs to account for the number of grade change forms received and used. Further, none of the departments that we contacted compare their copies of the grade change forms with those of the Admissions and Records Office to verify that the changes are valid and properly authorized.

Good administrative control would also require that grade changes be properly authorized. Approved grade change forms require the signatures of the instructor, the department chair, and the school dean. Currently, the Admissions and Records Office does not use signature cards to verify the authenticity of signatures on the grade change forms. As a result, the university does not have assurance that grade changes are properly authorized.

CONCLUSION

The California State University, Long Beach, does not comply with all budgetary and procedural requirements. In fiscal year 1985-86, the university overspent its authorized budget. As a result, the university transferred to fiscal year 1986-87 obligations totaling \$688,000 and had to request a \$900,000 loan from the CSU Office of the Chancellor to pay its obligations. Also, the university does not adequately document its use of funds budgeted for instructional faculty positions. Furthermore, the university bypassed established procedures when awarding a summer stipend to a new employee. In addition, the university has not established procedures to adequately control grade change forms.

RECOMMENDATIONS

To ensure that it does not overspend its budget, the university should comply with all budgetary requirements. The university should not plan to spend more than has been authorized by the CSU Office of the Chancellor nor should the university revise its authorized budget without first obtaining the permission of the CSU Office of the Chancellor.

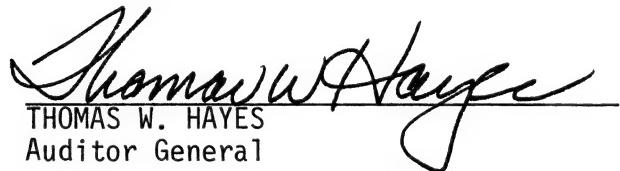
To ensure that it does not use funds budgeted for instructional faculty positions for purposes unrelated to instruction, the university should fully document its use of these funds. The documentation should be adequate to provide an exact accounting of the funds budgeted for instructional faculty positions. In addition, the Legislature should adopt budget language that specifically states how funds budgeted for instructional faculty positions may be used.

To ensure that all summer stipends are awarded fairly, the university should use the same criteria to evaluate all summer stipend proposals whether the stipends are awarded through the standard application process or at the discretion of the vice president. In addition, the university should adequately and consistently document its reasons for awarding the stipends.

To ensure that grade change forms are adequately controlled, the university should properly store and reconcile them. At a minimum, the university should require that all grade change forms be maintained in an area that is not accessible to students. In addition, the university should require the departments to reconcile the grade change forms they submit to the grade changes that the Admissions and Records Office processes.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the scope section of this report.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: December 15, 1986

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December 9, 1986

Mr. Thomas W. Hayes
The Auditor General
Suite 300
660 "J" Street
Sacramento, California 95814

Dear Mr. Hayes:

I appreciate the opportunity to react to the draft copy of your report entitled "Review of the Fiscal and Administrative Management of the California State University, Long Beach Foundation and the California State University, Long Beach."

The following are the clarifications we wish to have included with the report when it is issued. To facilitate reading, the referenced passages from the report are cited by page and quoted prior to the University's response.

During the two fiscal years (FY 1985 and FY 1986) examined, the CSULB Foundation had a total volume of \$18,029,906, including \$10,550,503 in Grants and Contracts and \$7,479,403 in Agency accounts. Nine Agency accounts were examined. Their total volume for FY 1985 and FY 1986 was \$576,219. The staff of the Auditor General has questioned approximately \$9,000 from those accounts.

*

Our comments concerning the text also reflect our views on the capsule summaries (pp. 5-1 to 5-3) which we feel in some instances are misleading.

Auditor General Comments:

- * While the amount of costs questioned in the audit is only \$9,000, this amount is based on a small sampling of funds spent by the foundation. We tested only 9 of the 425 accounts administered by the foundation to identify systemic weaknesses that exist, and we recommended actions to correct those weaknesses.

Page 7; first paragraph:

Further, in November 1985, a university administrator paid to a civic organization \$1,000 in membership dues for 1987 and 1988. Although the dues are a reasonable expense, paying the dues two years in advance is questionable.

Comment:

The referenced membership is the University's membership in the Long Beach Area Chamber of Commerce. The source of funding for the payments was privately raised, unrestricted, non-State funds. The University has long held membership in the Chamber of Commerce as one of the primary civic organizations of the Long Beach community. This involvement has been reflected in the fact that the bylaws of the Chamber of Commerce provide to the University automatic representation on the Board of Directors. Currently, the President and Dean of Business Administration serve on the Board. Other University officials are active on various Chamber committees, such as those involved with international trade. The advance payment of membership dues by the University and other major employers from privately raised funds was provided to meet pressing financial obligations of the Chamber. The University fully intends to maintain its active association with the Chamber in future years.

Page 7; first paragraph:

In one instance, the foundation paid \$401.50 (\$57.35 per person) for a dinner for seven. The allowable limit for dinners is \$25 per person. Consequently, the foundation paid \$226.50 more than allowed.

Comment:

The example cited was a dinner for the Consul General of France and the newly appointed Cultural Attaché. Its purpose was to explore the University's involvement with the MICEFA consortium of Paris universities and to discuss various faculty and student exchanges. Dinners such as this are usual and expected functions of the University. The same Foundation procedures which prescribe the "allowable limit" also provide for exceptions. The authorized designee did review and approve the expenditure of a catered dinner which was originally contracted for ten guests.

Page 7; second paragraph:

Further, in three of the nine accounts we reviewed, the foundation made disbursements for goods and services that would be denied at a state agency because the disbursements did not conform with state control procedures. For example, because the university was unable to reimburse travel expenses through state funds for an administrator's spouse, the university requested reimbursement of \$589 from discretionary funds maintained at the foundation.

Comment:

The Foundation, as recognized elsewhere in the report, is a separately organized, non-profit corporation which is authorized by the Trustees of The California State University. It is not a state agency. As such, among its purposes is to provide services not normally furnished by the State budget. In the example cited, the State budget does not provide funds to cover the cost of spousal travel as part of the University's recruitment budget. The position for which the individual was

recruited involved the essential function of faculty development. The University was engaged in a national search to fill that position and found it necessary to provide from privately raised funds the necessary resources to enable the candidate's spouse to visit the area during the recruitment process. Subsequently, the candidate accepted the position and is currently serving in it. I might add that prior to this time, the University had a few losses of key personnel because the spouse had not been fully involved in the housing arrangements before acceptance of the position.

Page 7; second paragraph:

We also identified disbursements of discretionary funds for computer equipment costing \$2,704 that was purchased without competitive bids.

Comment:

The referenced equipment was part of a larger computer configuration purchased on behalf of the Student Development area that involved both State and Foundation funds. The competitive process was utilized for the total system through the normal State purchasing process. The Foundation component of the purchased equipment relied upon that procurement process. Inadvertently, this fact was not noted in Foundation files. An appropriate entry has now been made.

Page 6; last paragraph:

The foundation made disbursements from 4 of 9 accounts, although there was no documentation showing how the expense related to the educational objectives of the university. In addition, some of the disbursements were excessive. For example, the university paid for disc jockey services from a research support account although there was no documentation showing how this expenditure related to the educational objectives of the university or to research.

Comment:

The Foundation funds involved were discretionary funds budgeted to the Vice President for Student Services. The use of these funds for "disc jockey services" resulted from the cancellation of a dance planned by a recognized student organization. The decision to cancel the dance was made by the administration after police intelligence reports indicated the strong likelihood of a gang-related shooting. The actual expenditure was to cover the penalty payment due the disc jockey for late notice of the cancellation of his services, a decision which was not made by the student organization but by the campus administration in order to avoid the likelihood of violence on the campus.

Page 13; first paragraph:

In addition, the university did not adequately document its use of funds budgeted for instructional faculty positions and may have used up to \$454,000 budgeted for these positions for unauthorized purposes.

Comment:

This summary statement is misleading to the reader. The finding of fact as detailed in the body of the report clearly states that no evidence of inappropriate expenditure was

discovered. Concern was expressed in the report that the documentation was insufficient to dispel the possibility that inappropriate uses may have resulted as purchases were cancelled. There is no evidence to support that allegation. The fact is that the majority of the cancelled purchases were from the non-instructional area even though that area has a much smaller proportion of the total budget compared to that of instruction.

Page 8; last paragraph:

The foundation made disbursements without receipts, original invoices, or explanation of the purpose for the disbursements. The foundation also paid \$483.95 to an individual who had authorized the disbursement of funds.

Comment:

The referenced expenditures involved the Center for Criminal Justice. The staff of the Foundation has been instructed to accept only original receipts when processing requests for reimbursements and to require appropriate counter signatures when requests for disbursements involve the individual authorized to approve the expenditure of funds.

Page 9; heading:

The Foundation Has Not Adequately Monitored Research Hours.

Comment:

The statement that "the foundation has not adequately monitored research hours . . ." is not technically correct.

The fact that records were available to determine both the faculty University workload and also the workload in the Foundation, shows that adequate records do exist. What was lacking was a proper communication between the University and the Foundation to monitor the overload at the level allowable under University policy. The task of monitoring faculty overload is performed by the University, more specifically by the Division of Faculty and Staff Relations. What was lacking was a mechanism to provide timely communication between the University and the Foundation of the workload of relevant faculty as it is ongoing, so that proper control could be exercised in a timely manner. The existing controls were apparently adequate, save in this one case.

The following steps have been taken to ensure that no such oversight in communication necessary to control workload will occur again in the future.

The Foundation will provide the University's Division of Faculty and Staff Relations with the names of those faculty members who are engaged in additional employment through the CSULB Foundation. The Division of Faculty and Staff Relations will then provide the Foundation with copies of current personnel transaction forms for the relevant faculty members for review of the time base assigned for the semester(s) in question.

Page 18; last paragraph:

The university's process for evaluating applications and awarding summer stipends is an equitable one. However, in 1986 the former vice president [for academic affairs] exercised his discretionary authority and bypassed the university's application process for awarding a summer stipend to a new employee.

Comment:

The former vice president exercised appropriate discretionary authority when he decided to award a summer stipend to assist in the recruitment of an outstanding new tenure-track faculty member.

The statement that this action "bypassed" the University application process is incorrect. The University's application process applies only to on-campus applicants. Since the regular faculty who serve on the committee involved are generally not available during the summer, it would not be possible to consult them even if they were involved in such awards for newly recruited faculty, which they are not. Many of the key recruitment offers are made during the summer. Since the Vice President for Academic Affairs made the decision in both types of cases, there is no evidence that he used different criteria for the newly recruited faculty member than were used when he reviewed the recommendations of the committee which advised concerning on-campus personnel.

The instance in question involves the utilization of a summer stipend as one item in a recruitment package, along with

other incentives such as moving expenses, to attract an excellent prospective faculty member.

In the future, documentation of the reasons for these summer stipends will be recorded.

We appreciate the comments of the Auditor General concerning the need for better security in the grade change forms available at the school and departmental levels. I have attached a memorandum from Director of Admissions and Records James F. Menzel which outlines the steps we are taking to implement that helpful suggestion. Thank you for your cooperation.

With kindest regards,

Sincerely yours,



Stephen Horn
Stephen Horn

SH:tw
Attachment

CALIFORNIA STATE UNIVERSITY, LONG BEACH
ADMISSIONS AND RECORDS
MEMORANDUM

DATE: 12/8/86
File: 86-504

TO: Tom Bass
Office of the President

FROM: James F. Menzel, Director
Admissions and Records

SUBJECT: Auditor General's Report

Pages 19-22 of the report by the Auditor General's staff refer to potential breaches of security in how change of grade forms are handled. Concerns were two-fold: 1) physical security of the forms, and 2) reconciliation between the Records Office and the academic department of the grade change received and the grade actually posted. It was recommended that forms be more carefully inventoried, and that forms be stored in locked cabinets. It was also recommended that signature cards be kept on file in the Records Office to verify that signatures on forms received are valid.

We request consideration of the following response.

1. Physical security. Grade change forms are routinely disbursed in batches to departments. Cover memoranda will in the future stipulate that these forms shall be physically secured in locked cabinets. (The University inventory of these forms will also be secured in the Records Office vault area.) Additionally, upon reprinting these forms, each form will be numbered in series. Departments will be directed to inventory all copies and log all forms received and sent according to serial number, date, person/destination, and department clerk.
2. Reconciliation. Grade change forms are issued and received only by an official department courier, who shall furnish University identification to Records Office staff as requested. At the time of posting, the third copy of the 3-part form shall be noted and returned to the originating department. Reconciliation shall then occur within the department, who shall log in the returned receipted copy and verify the transaction. Periodic review of outstanding forms (identified by serial number on the log sheet) shall be made by the department and notice of missing forms shall be sent to the Records Office. Such missing serial-numbered forms will be considered invalid.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps